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SUBJECT: REWARD PERFORMANCE: RESELECT INDONESIA

REF: STATE 108510

¶1. (SBU) SUMMARY. Embassy strongly supports MCC reselecting Indonesia as eligible for compact. Indonesia deserves reselection based on its performance both on and outside the indicators. Failing to reselect Indonesia would dash Indonesian expectations created by the U.S. government and would weaken the hand of government officials pushing for economic reform, good governance, and accountability. Embassy urges all agencies and board members to support the reselection. See action request. END SUMMARY

¶2. (U) BACKGROUND. Embassy understands MCC is sounding out other agencies on this year's selections for eligibility for compacts and that an interagency meeting is set for November 12. Furthermore Embassy understands the MCC board is set to meet on December 9 to make the final selections.

¶3. (SBU) BASED ON PERFORMANCE INDONESIA DESERVES TO BE RESELECTED. In general Indonesia has improved its absolute performance on a range of the indicators and did not go down on the control of corruption indicator. The only technical problem is that Indonesia has graduated from a Low Income Country (LIC) to a Lower Middle Income Country (LMIC) and hence is being compared to a more competitive group. This graduation is questionable (See para 4). Within the Low Income Country group Indonesia would pass without difficulty. Even in the LMIC group Indonesia is only slightly off (See para 5). In addition Indonesia performance includes major accomplishments that should be recognized and rewarded (See para 6). If MCC fails to reselect Indonesia, our partners here would question U.S. commitment to the country and our reliability as a partner (See para 7).

¶4. (SBU) INCOME GRADUATION IS QUESTIONABLE. The Gross National Income per capita for Indonesia for 2007 was USD 1,650 and for 2008 it was USD 2,010. However there are serious methodology issues with these numbers, particularly on the appropriate exchange rate to use to convert Indonesian rupiahs into US dollars. The USD numbers used show a per capita income gain of almost 22 percent in a single year. However the real gain in per capita national income was only around six percent. If six percent is applied to the original USD GNI per capita figure, Indonesian 2008 income figure would only be USD 1,749 which is substantially less than the USD 1,856 which marks the beginning of the lower middle income group. Hence Indonesia would still be a low income country and would pass the indicators without a problem.

¶5. (SBU) PERFORMANCE IS GOOD EVEN IN LMIC GROUP. Indonesia does well against the increased competition of the Lower Middle Income Countries. Indonesia has problems only with investing in people and control of corruption. Indonesia is only off four hundreds of a percent in passing primary education expenditures and hence passing investing in people (1.93 versus 1.97). In control of corruption,

Indonesia's performance has not declined on an absolute basis, but is only off slightly in a relative sense, only having to beat out three more countries in the group to pass.

16. (SBU) INDONESIA HAS ACCOMPLISHED A LOT. Since being selected last year, Indonesia has successfully carried out the largest single time parliament and presidential elections in the world. Indonesia has been a good partner of the U.S. in international fora, including the G20, where we are now addressing key global economic issues, including climate change and food and energy security. The democratically reelected president has installed some excellent economic ministers and committed the new government to major reform efforts. While progress on compact preparation has been slower than desired, Indonesia has formed a technical unit to advance progress on the compact. The constraints analysis is being presented this week and ambitious plans for public consultations have been put in place.

17. (SBU) SERIOUS POLITICAL RISKS SURROUND A NEGATIVE DECISION. The selection of Indonesia as eligible for a compact has received substantial press and attention from Indonesia decision makers and the general public. It was hailed as an important step in U.S.-Indonesia relations. Failure to reselect Indonesia is likely to trigger serious negative reactions within the GOI and the public, leading them to question the U.S. government's reliability as a partner. This is especially true as Indonesia has generally performed quite well and does not meet a couple of performance indicators because the standards have been changed as a result of a growing economy and questionable converting.

18. (SBU) ACTION REQUEST. Embassy asks all involved agencies and board members to support MCC reselecting Indonesia for a compact.

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